CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 30, 2006

H.R. 4411
Unlawful Internet Gambling Enforcement Act of 2006

As ordered reported by the House Committee on Financial Services on March 15, 2006

SUMMARY

H.R. 4411 would prohibit businesses from accepting credit cards, checks, or other bank instruments from gamblers who illegally bet over the Internet. It also would direct the Department of the Treasury and the Board of Governors of the Federal Reserve System (the Federal Reserve) to issue regulations outlining policies and procedures that could be used by financial institutions to identify and block gambling-related transactions that are transmitted through their payment systems. Compliance with those prohibitions and regulations would be enforced by various federal agencies as well as state governments, and violations would be subject to new civil remedies and criminal penalties. Finally, the bill would require the Secretary of the Treasury to report annually to the Congress on any international deliberations regarding Internet gambling.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 4411 would cost about $2 million over the 2007-2011 period. Enacting the bill would affect direct spending and revenues, but CBO estimates that the net impact on direct spending and revenues would not be significant in any year.

H.R. 4411 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

H.R. 4411 would impose mandates, as defined in UMRA, on financial institutions and other financial transaction providers. Because the cost of the mandates would depend on regulations to be prescribed under the bill, CBO cannot determine whether the direct cost to comply with those mandates would exceed the annual threshold established by UMRA for private-sector mandates ($128 million in 2006, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4411 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars				
	2007	2008	2009	2010	2011
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Estimated Authorization Level	1	*	*	*	*
Estimated Outlays	1	*	*	*	*

NOTE: * = Less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 4411 will be enacted near the end of fiscal year 2006 and that funds will be appropriated for the activities authorized by the bill.

Spending Subject to Appropriation

Based on information from the Department of the Treasury and other affected agencies, CBO estimates that implementing this bill would cost about $2 million over the 2007-2011 period, assuming appropriation of the necessary amounts. That estimate primarily reflects the cost of developing regulations to identify and block financial transactions related to illegal Internet gambling. The cost of preparing annual reports to the Congress on international deliberations on this issue would not be significant. Spending by the Department of Justice and the Federal Trade Commission to enforce certain provisions in the bill would likely be negligible in any given year, CBO estimates.

Direct Spending and Revenues

Enacting H.R. 4411 would affect direct spending and revenues because of provisions affecting financial regulatory agencies and criminal penalties. CBO estimates that such effects would not be significant.

H.R. 4411 would direct financial regulatory agencies to enforce the regulations on illegal Internet gambling as they apply to financial institutions, including Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, the National Credit Union Administration (NCUA), and the Office of Thrift Supervision (OTS). Any additional direct spending by NCUA, OCC, and OTS to implement the bill would have no net budgetary impact because those agencies charge annual fees to cover all of their administrative expenses. In contrast, the FDIC's sources of income—primarily intragovernmental interest earnings and deposit insurance premiums—do not change in tandem with in its annual expenditures; as a result, any added costs would increase direct spending unless and until the FDIC raised deposit insurance premiums to offset those expenses. Budgetary effects on the Federal Reserve are recorded as changes in revenues.

According to financial regulatory agency officials, enacting H.R. 4411 would not have a significant effect on their workload or budgets. For this estimate, CBO assumes that the FDIC would not assess additional premiums to cover the small costs associated with implementing this bill. Thus, CBO estimates that enacting this bill would increase direct spending and offsetting receipts of the NCUA, OCC, OTS, and FDIC by less than $500,000 a year. Based on information from the Federal Reserve, CBO estimates that the rulemaking and enforcement activities required by H.R. 4411 would reduce revenues by less than $500,000 a year.

Because those prosecuted and convicted under the bill could be subject to criminal penalties, the federal government might collect additional fines if the bill is enacted. Collections of such fines are recorded in the budget as revenues, which are deposited in the Crime Victims Fund and spent in subsequent years. Any additional collections are likely to be negligible because of the small number of cases involved. Because any increase in direct spending would equal the amount of fines collected (with a lag of one year or more), the additional direct spending also would be insignificant.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Although H.R. 4411 would prohibit gambling businesses from accepting credit card payments and other bank instruments from gamblers who bet illegally over the Internet, the bill would not create a new intergovernmental mandate as defined in UMRA. Under current federal and state law, gambling businesses are generally prohibited from accepting bets or wagers over the Internet. Thus, H.R. 4411 does not contain a new mandate relative to current law and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 4411 would impose mandates, as defined in UMRA, on financial institutions and other financial transaction providers. Because the cost of the mandates would depend on regulations to be prescribed under the bill, CBO cannot determine whether the direct cost to comply with those mandates would exceed the annual threshold established by UMRA for private-sector mandates ($128 million in 2006, adjusted annually for inflation).

The bill would require the Secretary of the Treasury and the Board of Governors of the Federal Reserve System, in consultation with the Attorney General, to prescribe regulations that would require financial transaction providers to identify and block restricted transactions in connection with unlawful Internet gambling through the establishment of reasonable policies and procedures. Such requirements would impose private-sector mandates on certain financial entities. Under the bill, the term "financial transaction providers" means creditors, credit card issuers, financial institutions, or other payment networks that utilize a designated payment system. Such systems would be determined by regulation.

The cost for financial transaction providers to comply with those mandates would depend on the regulations to be prescribed. Information from representatives of the financial services industry indicates that certain electronic transactions can currently be identified and blocked through the use of a coding system. If the regulations apply only to those transactions, based on information from industry and government sources, CBO expects that the cost of the mandates would fall below UMRA’s annual threshold. However, if the regulations also include the requirement for banks to identify and block checks or other bank instruments used in a restricted transaction, the direct cost to comply with the mandates could increase significantly and CBO has no basis to estimate whether those costs would be above or below the annual threshold.

Although section 2 would prohibit gambling businesses from accepting credit card payments and other bank instruments from gamblers who bet illegally over the Internet, those provisions would not create a new private-sector mandate as defined in UMRA. Under current federal and state law, gambling businesses are generally prohibited from accepting bets or wagers over the Internet. Thus, those provisions do not contain a new mandate relative to current law.

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